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Appraisal Subcommittee

Federal Financial Institutions Examination Council

February 12, 2014

The Honorable Manuel Flores, Secretary
Illinois Department of Financial and Professional Regulation
James R. Thompson Center
100 West Randolph, Suite 9-321
Chicago, IL 60601

RE: ASC Compliance Review of Illinois's Appraiser Regulatory Program

Dear Secretary Flores:

The Appraisal Subcommittee (ASC) staff conducted an ASC Compliance Review (Review) of the Illinois appraiser regulatory program (Program) on September 9-13, 2013 to determine the Program's compliance with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended.

The ASC considered the preliminary results of the Review and the State's response to those results. The Program is given an ASC Finding of "Needs Improvement." The final ASC Compliance Review Report (Report) is attached. The ASC identified the following area of non-compliance:

- States must resolve all complaints filed against appraisers within one year (12 months) of the complaint filing date, except for special documented circumstances.¹

The ASC commends the Program for the substantial progress it has made to improve its compliance with Title XI mandates and we look forward to your continued progress. ASC staff will confirm appropriate corrective actions have been taken through off-site monitoring and during the next Review. Illinois will be moved to a two-year Review Cycle with a Follow-up Review in one year.

This letter and the attached Report are public records and available on the ASC website. Please contact us if you have any questions about this Report.

Sincerely,



Arthur Lindo
Chairman

Attachment

cc: Mr. Jay Stewart, Director of the Division of Professional Regulation
Mr. Mike Garvin, ASC Liaison

¹Title XI § 1118 (a), 12 U.S.C. § 3347; ASC Policy Statement 7.

ASC Finding Descriptions

ASC Finding	Rating Criteria	Review Cycle*
Excellent	<ul style="list-style-type: none"> • State meets all Title XI mandates and complies with requirements of ASC Policy Statements • State maintains a strong regulatory Program • Very low risk of Program failure 	2-year
Good	<ul style="list-style-type: none"> • State meets the majority of Title XI mandates and complies with the majority of ASC Policy Statement requirements • Deficiencies are minor in nature • State is adequately addressing deficiencies identified and correcting them in the normal course of business • State maintains an effective regulatory Program • Low risk of Program failure 	2-year
Needs Improvement	<ul style="list-style-type: none"> • State does not meet all Title XI mandates and does not comply with all requirements of ASC Policy Statements • Deficiencies are material but manageable and if not corrected in a timely manner pose a potential risk to the Program • State may have a history of repeated deficiencies but is showing progress toward correcting deficiencies • State regulatory Program needs improvement • Moderate risk of Program failure 	2-year with additional monitoring
Not Satisfactory	<ul style="list-style-type: none"> • State does not meet all Title XI mandates and does not comply with all requirements of ASC Policy Statements • Deficiencies present a significant risk and if not corrected in a timely manner pose a well-defined risk to the Program • State may have a history of repeated deficiencies and requires more supervision to ensure corrective actions are progressing • State regulatory Program has substantial deficiencies • Substantial risk of Program failure 	1-year
Poor ²	<ul style="list-style-type: none"> • State does not meet Title XI mandates and does not comply with requirements of ASC Policy Statements • Deficiencies are significant and severe, require immediate attention and if not corrected represent critical flaws in the Program • State may have a history of repeated deficiencies and may show a lack of willingness or ability to correct deficiencies • High risk of Program failure 	Continuous monitoring

*Program history or nature of deficiency may warrant a more accelerated Review Cycle.

² An ASC Finding of "Poor" may result in significant consequences to the State. See Policy Statement 5, *Reciprocity*; see also Policy Statement 8, *Interim Sanctions*.

ASC Compliance Review Report

ASC Finding: Needs Improvement
Final Report Issue Date: February 12, 2014

Illinois Appraiser Regulatory Program (Program)	
Real Estate Appraisal Administration & Disciplinary Board/Advisory	PM: K. Klamet
Umbrella Agency: Department of Financial and Professional Regulation, Division of Professional Regulation (Department)	ASC Compliance Review Date: September 9-13, 2013
	Review Period: November 2011 to September 2013
	Review Cycle: Two Year with Follow-up

Requirement/Guidance	Compliance (YES/NO) Areas of Concern (AC)			ASC Staff Observations	State Response	Required State Actions	Recommended State Actions	General Comments
	YES	NO	AC					
Illinois Statutes, Regulations, Policies and Procedures:			X					
States must require that appraisals be performed in accordance with the latest version of USPAP. (Title XI § 1101, 12 U.S.C. § 3331; Title XI § 1118 (a), 12 U.S.C. § 3347; ASC Policy Statement 1.)				Illinois Administrative Code §1455.10 and §1455.240 incorporate by reference the January 1, 2012-13 USPAP with no later amendments or editions. On January 1, 2014, the 2012-13 version of USPAP will no longer be in effect.	On December 18, 2013, the Department reported to ASC staff that an amendment to the Administrative Rules was submitted to the Secretary of State on November 7, 2013, to change the reference to the USPAP version effective January 1, 2012 to the version effective January 1, 2014. This amendment was published on November 22, 2013. The anticipated effective date is late February or March 2014.	None	To strengthen the Program, Illinois should continue the process of amending their regulations to adopt USPAP in a timely manner.	Upon adoption, please provide ASC staff with copies of these regulation changes.
Illinois Statutes, Regulations, Policies and Procedures continued:	X							
States must, at a minimum, adopt and/or implement all relevant AQB Criteria. (Title XI §§ 1116 (a), (c) and (e), 12 U.S.C. § 3345; Title XI § 1118 (a), 12 U.S.C. § 3347; ASC Policy Statement 1.)				A review of the Program's Statutes and Regulations revealed the following inconsistencies with the Appraiser Qualifications Board's (AQB) Real Property Appraiser Qualification Criteria (AQB Criteria) regarding: (1) reactivation of an appraiser credential; and (2) trainee/supervisory requirements. Prior to reactivation, a credential holder in inactive status must complete continuing education (CE) that would have been required if the credential holder had been in active status. Illinois statute §225 ILCS 458/25-15 requires the Appraisal Coordinator to surrender their real estate appraiser credential to the Department during his or her term. Upon reinstatement, the statute does not require CE for the period of time the credential was inactive. Effective July 1, 2013 any requirements established by a State for Trainee Appraisers and Supervisory Appraisers must meet or exceed AQB Criteria. Illinois repealed regulations regarding Trainee and Supervisory appraisers. However, they did not repeal the regulations establishing minimum qualifying education requirements for Trainees.	On December 18, 2013, the Department reported to ASC staff that an amendment to the Administrative Rules was submitted to the Secretary of State on May 30, 2013, to require the Appraisal Coordinator to complete and remain current with all continuing education requirements. At the same time, an amendment was also submitted to the Administrative Rules placing the previously repealed provisions relating to Trainees and Supervisors back into the Rules. These amendments were published by the Secretary of State on December 2, 2013, and became effective December 31, 2013.	None	None	The Department's resolution addresses the concerns.

ASC Compliance Review Report

ASC Finding: Needs Improvement
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Illinois Appraiser Regulatory Program (Program)		Real Estate Appraisal Administration & Disciplinary Board/Advisory		PM: K. Klamet	ASC Compliance Review Date: September 9-13, 2013	Review Period: November 2011 to September 2013
Umbrella Agency: Department of Financial and Professional Regulation, Division of Professional Regulation (Department)				Number of State Credentialed Appraisers on National Registry: 4,113		Review Cycle: Two Year with Follow-up

Requirement/Guidance	Compliance (YES/NO) Areas of Concern (AC)			ASC Staff Observations	State Response	Required State Actions	Recommended State Actions	General Comments
	YES	NO	AC					
Temporary Practice:	X							
States must recognize, on a temporary basis, appraiser credentials issued by another State if the property to be appraised is part of a federally related transaction. (Title XI § 1122 (a) (1), 12 U.S.C. § 3351; ASC Policy Statement 2.)				ASC Policy Statement 2 requires temporary practice permits to be issued on an assignment basis (1 or more real estate appraisals and written appraisal report(s) covered by a single contractual agreement). Illinois regulation (§1455.130 (c)) defines the term "assignment" as no more than 5 real estate appraisals and no more than 5 written appraisal reports that are covered by an appraisal contract.	On December 18, 2013, the Department reported to ASC staff that an amendment to the Administrative Rules was submitted to the Secretary of State on May 30, 2013, to delete the reference in the definition of "assignment" to a limit of 5 real estate appraisals or 5 written appraisal reports. This amendment was published by the Secretary of State on December 2, 2013, and became effective December 31, 2013.	None	None	The Department's resolution addresses the concern.
National Registry:	X							
				No compliance issues noted.	N/A	None	None	None
Application Process:	X							
				No compliance issues noted.	N/A	None	None	None
Reciprocity:	X							
				No compliance issues noted.	N/A	None	None	None
Education:			X					
States must ensure that appraiser education courses are consistent with AQB Criteria. (Title XI § 1118 (a), 12 U.S.C. § 3347; AQB Real Property Appraiser Qualification Criteria; ASC Policy Statement 6.)				Education course files lacked the documentation needed to determine if approved appraisal courses conform to AQB Criteria. Based on a review of education course files and discussion with Program staff, ASC staff found that education courses are renewed without ensuring current compliance with AQB Criteria.	On December 18, 2013, the Department reported to ASC staff that all qualifying and continuing education courses with a "begin" date prior to 2010 are being audited to ensure compliance with AQB Criteria. The audit affected over 150 education courses and is scheduled to conclude by the end of 2013. In addition, the Department changed the renewal application forms and process to ensure continued compliance with current AQB Criteria.	None	None	During a Follow-up Review in 1 year and the next Compliance Review, ASC staff will pay particular attention to this area for compliance with Title XI, AQB Criteria and ASC Policy Statement 6.

ASC Compliance Review Report

ASC Finding: Needs Improvement
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Requirement/Guidance	Compliance (YES/NO) Areas of Concern (AC)			ASC Staff Observations	State Response	Required State Actions	Recommended State Actions	General Comments
	YES	NO	AC					
Education continued:			X					
States must ensure the delivery mechanism for distance education courses offered by a non-academic provider has been approved by an AQB-approved organization providing approval of course design and delivery. (Title XI § 1118 (a), 12 U.S.C. § 3347; AQB Real Property Appraiser Qualification Criteria; ASC Policy Statement 6.)				Courses that have AQB Course Approval Program (CAP) approval for content and/or International Distance Education Certification Center (IDECC) approval for delivery, are renewed without ensuring that the CAP and/or IDECC approval is current.	On December 18, 2013, the Department reported to ASC staff that all qualifying and continuing education courses with a "begin" date prior to 2010 are being audited to ensure compliance with AQB Criteria. The audit affected over 150 education courses and is scheduled to conclude by the end of 2013. The Department also reported that a new on-line listing of courses contains IDECC expiration dates as they become available through the audit. In addition, the Department changed the renewal application forms to require appropriate documentation to ensure courses have current CAP and/or IDECC approval.	None	None	During a Follow-up Review in 1 year and the next Compliance Review, ASC staff will pay particular attention to this area for compliance with Title XI, AQB Criteria and ASC Policy Statement 6.
Education continued:			X					
States must ensure that appraiser education courses are consistent with AQB Criteria. (Title XI § 1118 (a), 12 U.S.C. § 3347; AQB Real Property Appraiser Qualification Criteria; ASC Policy Statement 6.)				Illinois renews approval of the 15-hour and 7-hour National USPAP courses without ensuring that the instructors are State certified appraisers and AQB certified instructors.	On December 18, 2013, the Department reported to ASC staff that an internal renewal form was developed to document that each approved USPAP instructor has met all requirements.	None	None	During a Follow-up Review in 1 year and the next Compliance Review, ASC staff will pay particular attention to this area for compliance with Title XI, AQB Criteria and ASC Policy Statement 6.

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Requirement/Guidance	Compliance (YES/NO) Areas of Concern (AC)			ASC Staff Observations	State Response	Required State Actions	Recommended State Actions	General Comments
	YES	NO	AC					
Enforcement:		X						
States must resolve all complaints filed against appraisers within one year (12 months) of the complaint filing date, except for special documented circumstances. (Title XI § 1118 (a), 12 U.S.C. § 3347; ASC Policy Statement 7.)				<p>Illinois did not resolve complaints timely. Illinois had 246 outstanding complaints of which 140 were unresolved for more than 1 year. Of the complaints outstanding for more than 1 year, none fall under the exception for special documented circumstances.</p> <p>During the November 2012 ASC Staff Required State Action Assessment, Illinois had 485 cases pending with 276 outstanding for more than 1 year. Illinois was required to reduce the complaints outstanding for 1 year or longer (without special documented circumstances) by 10 percent by July 1, 2013; 30 percent by October 31, 2013; 50 percent by December 31, 2013; 75 percent by March 31, 2014; and 90 percent by June 30, 2014. Illinois currently is exceeding these goals.</p>	<p>On December 18, 2013, the Department reported to ASC staff that, as of the date of their response, there are 217 cases pending with 111 cases outstanding for more than 1 year.</p> <p>In addition, the Department anticipates a 60% reduction in the 276 aged cases by the end of 2013. This reduction is above the 50% reduction required in the April 10, 2013 Required State Action Assessment Report.</p> <p>To address the matter of timely complaint resolution, the Department made significant changes to the structure and staffing of the Investigative Unit and the Prosecutions Unit. In addition, substantial procedural changes were implemented, including the creation of a Probable Cause Committee.</p>	<p>Illinois must continue to submit quarterly complaint logs to ASC staff. Staff will analyze each log. If continued progress is not made, the ASC may place additional requirements upon the State.</p>	<p>None</p>	<p>Although Illinois is still out of compliance in enforcement, the ASC commends Illinois's continued progress toward complaint resolution.</p> <p>Through off-site monitoring as well as during a Follow-up Review and the next Compliance Review, ASC staff will pay particular attention to this area for compliance with ASC Policy Statement 7.</p>